



Independent Accountants' Report on the Application of Agreed-Upon Procedures on the Indirect Cost Rates Proposed by the Open Society Institute

The Department of State, Office of Inspector General, contracted with L.F. Harris & Associates, CPA, P.A., to perform certain agreed-upon procedures to determine whether the indirect cost rates proposed by the Open Society Institute, for the fiscal years ended December 31, 2005, 2004, and 2003, complied with applicable regulations. The Institute is a private, non-profit foundation that was formed as a charitable trust under the laws of the State of New York by philanthropist George Soros. The Institute is part of the Soros Foundations Network. The Institute aims to shape public policy to promote democratic governance; human rights; and economic, legal, and social reform.

The independent accountants found, for the period specified, that the Institute's accounting system was inadequate for the purpose of accumulating and reporting indirect costs under the provisions of Office of Management and Budget (OMB) Circular A-122, codified at 2 CFR Part 230, *Cost Principles for Non-Profit Organizations*, and Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. As a result, the independent accountants took exception to the indirect cost rates reported by the Institute for the fiscal years ended December 31, 2005, 2004, and 2003, and they were unable to recompute the Institute's indirect cost rates for the fiscal years specified.

OIG recommended that the Bureau of Educational and Cultural Affairs require the Open Society Institute to establish control procedures to prevent (1) the allocation of expenses to federal programs that do not benefit the federal awards, and (2) federally unallowable expenses from being charged or allocated to federal programs. OIG also recommended that the Bureau of Educational and Cultural Affairs require the Open Society Institute to (1) strengthen internal controls over cash disbursements, (2) establish appropriate policies and procedures to ensure that costs are adequately documented and accounted for in accordance with applicable provisions of OMB Circular A-122, and (3) bring its accounting system into full compliance with OMB circular A-122.

Office of Inspector General

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